CIA/OER/IM 71-17 US TRADE WITH EASTERN EUROPE

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DIRECTORATE OF
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Intelligence Memorandum

Short-Term Prospects For US Trade With Eastern Europe

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1971

INTELLIGENCE MEMORANDUM

Short-Term Prospects For US Trade With Eastern Europe

Introduction

US trade with Eastern Europe* is small by either US or East European standards and has grown erratically. This US experience is in sharp contrast to West European trade with Eastern Europe, which has flourished in recent years. The East Europeans claim that their trade with the United States is small because of US barriers to trade with Communist countries, but the volume of goods exchanged will probably remain a small part of East European trade with the West whether or not US barriers are lowered. This memorandum examines the status of US-East European trade and short-term prospects in light of factors working to limit as well as to expand trade.

The Nature of US-East European Trade

1. US trade with Eastern Europe amounted to about $380 million in 1970,** or 32% greater than in 1969. The growth of trade in 1970 is largely accounted for by increased US exports to Romania, Poland, and Hungary. The US share of East European trade with the Industrial West is about 6%.

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* *Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.*
** *Based upon US Department of Commerce trade data for the first 11 months of 1970.*

Note: This memorandum was prepared by the Office of Economic Research.

2. Future levels of US-East European trade are hard to estimate because there is no trend in the last half of the 1960s, as a result of erratic US exports. East European needs for US agricultural products, which made up over 30% of total East European imports from the United States in 1969, are as volatile as the weather and changing Eastern European priorities. The small US exports of manufactures are also subject to sharp changes, which can be caused by the sale by US companies of merely one or two complete plants, or one shipment of expensive machinery. For example, a US company, AMAX, recently signed a contract worth $10 million for the supply of technology and equipment for an aluminum sheet-rolling mill to Romania. The value of this contract is equal to 31% of total US exports to Romania in 1969 and to 60% of 1968 exports.

3. In terms of a share of US exports, the East European market is not presently important for US business -- nor is it likely to become so in the near future. Should US sales to Eastern Europe triple in value by 1975 to a level of about $700 million -- an unlikely but not impossible prospect -- they would still represent only between 1% and 2% of total US exports. If total US sales to Eastern Europe are broken down according to participating US firms, most of which are quite large, sales to Eastern Europe are a negligible item in the annual balance sheet of any one of them. Except for possible benefits accruing to a handful of firms involved in US-Eastern European trade, particularly those involved in agricultural sales, there are few strictly economic reasons for encouraging expanded US exports to Eastern Europe in the next few years. On the political side, increased US economic interaction with Eastern Europe might tend to bolster US foreign policy aims. Increased trade might lead to improved relations, or additional leverage, in areas other than trade.

4. The possibility of a general expansion of US exports to Eastern Europe will hinge primarily upon continued East European need for US agricultural products, particularly oilseeds, cakes and meal, and feed grains, as well as their need for certain primary products, including coke, combined with the expansion of hitherto sparse sales of US licenses, technology, and equipment.

5. US exports to Romania accounted for about 60% of the growth in US-East European trade in 1968-70, and the worsening of Romania's trade balance with the United States by about $50 million in 1970 (the cumulative deficit is about $120 million in 1966-70) may discourage Romania from further expanding purchases from the United States until US imports "catch up" somewhat. On the other hand, the rumored Chinese Communist hard currency loan to Romania in November 1970, which could have amounted to as much as $100 million, might allow Romania to expand imports of US goods further in 1971, regardless of sales successes, while meeting heavy hard currency debt repayments commitments and debt service costs.

6. So far as US imports from Eastern Europe are concerned, current East European shortages, together with export commitments to other Communist trading partners, and a maximum effort to improve on recent sales successes in Western Europe, probably will leave little margin for expanding sales to the United States in the near future.

7. Poland has dominated US-East European trade since the mid-1950s. In 1969, Polish sales accounted for 68% of US imports from Eastern Europe. Poland has received substantial preferential treatment from the US government relative to the other East European countries, beginning in 1957 with the extension of long-term credits under Title 1 of PL-480, for Polish purchases of surplus agricultural commodities -- mainly wheat, feed grain, vegetable oil, and cotton -- and followed, in 1960, by the granting of most-favored-nation tariff status (MFN) by the United States.

8. Polish sales to the United States have increased by about two and one-half times since 1960. The granting of MFN status to Poland has had some positive direct effects on Polish sales, particularly of a variety of semi-manufactures. Tariff barriers, however, are not the most serious obstacles to entry into US markets; rather it is the markets themselves which, through competition, tend to choke off those goods which are in abundance in Eastern Europe -- goods of inferior quality, which lack uniformity over time.

9. While MFN rates have increased the hard currency return on those few commodities Poland manages to sell, and has no doubt encouraged marketing attempts, it would be incorrect to attribute much of the growth of Polish exports to the United States directly to lowered (MFN) tariff rates. It is likely that if MFN status had not been granted to Poland, and Poland were capable of marketing a substantial volume of tariff-laden products to the United States, it would do so to earn much-needed hard currency, regardless of the higher tariffs. There is ample evidence indicating that East European firms are less sensitive to variations in export prices than are Western firms; that Eastern Europe has been preoccupied with difficulties in establishing markets in the West; and, in many cases, price discounting of goods ranging up to 50% below market prices -- due to inferior quality and other limitations -- has not deterred Eastern Europe from selling in the West. The East Europeans value Western markets too highly as sources of hard currency to hold back sales even at lower returns and risk losing their foothold in those markets. Thus, by the same token, tariff discrimination as a cost of selling on the US market is, in many cases, probably not a sufficient deterrent to prevent those sales.

Commodity Mix

US Exports

10. The mix of US exports to Eastern Europe has differed from the mix of West European exports because of the traditional reliance by Eastern Europe on US agricultural products -- mainly grain and feedstuffs. In 1967-69, US sales of food and live animals alone represented an average of 43% of total exports to Eastern Europe, of which more than 90% were cereal products. By adding crude materials exports of agricultural origin (such as soybeans, hides, and cotton,) agricultural exports have averaged more than 50% of total exports. Commodity Credit Corporation (CCC) credits, with maturities up to 36 months, have been provided over the years for some of these exports, and although Romania is currently the only one with outstanding CCC drawings, some of the other East European countries could make use of CCC facilities to finance purchases of cereals in 1970-71.

11. US exports of intermediate goods and semi-manufactures were worth $28 million in 1967-69. Romanian purchases of steel products dominated this category, making up about 60% ($16 million) of the total. Most of the remaining $12 million represented Polish and Czech purchases of crude chemicals, textile semi-manufactures, some steel products, and other miscellaneous items.

12. US exports of non-agricultural raw materials have consisted primarily of crude textiles (to Poland), small amounts of pulp and paper (to Romania), and metalliferous ores and metal scrap worth $5 million (to East Germany, Czechoslovakia, and Poland). Raw materials of non-agricultural origin have averaged about 40% to 50% of total US raw materials exports to Eastern Europe in recent years.

13. US chemicals sales to Eastern Europe have averaged only 5% of total exports since the mid-1960s (see Table 1). This East European market has been dominated by Western Europe and by West Germany in particular. Major purchasers have been Poland and Romania, accounting for about 60% of total US sales of chemicals to Eastern Europe in 1967-69. Deliveries have consisted primarily of elements and compounds, pharmaceuticals, and plastics.

14. The peculiar nature of US-East European trade relations is most apparent in the very low level of US machinery exports, which averaged only 14% of total sales in 1967-69. By comparison, East European machinery and equipment imports from Japan, a relative novice in this market, averaged 50% of total Japanese sales in the same period (mostly ships sold to Romania and Bulgaria). Thus, of total Japanese sales of $200 million to Eastern Europe in 1967-69, about $100 million involved machinery and equipment. In the same period US machinery sales to Eastern Europe were $61 million out of total sales of $437 million. The low value of US machinery exports can be explained in part by the existence of US subsidiaries in Western Europe. Sometimes a subsidiary will supply machinery under a contract, while the US parent company sells the technology. In this way the US firm can take advantage of more liberal credit terms available in Western Europe. For example, the M.W. Kellogg Company of Houston recently won a $19.5 million

Table 1

US Trade with Eastern Europe a/

Million US $

	1967	1968	1969	1970 b/
Total turnover	*270*	*299*	*287*	*380*
Exports	135	159	143	231
Imports	136	140	144	149
Of which:				
Food, beverages and tobacco				
Exports	64	82	52	
Imports	53	53	56	
Crude materials				
Exports	26	35	32	
Imports	7	8	8	
Mineral fuels, lubricants				
Exports	1	2	6	
Imports	1	2	3	
Animal and vegetable oils and fats				
Exports	4	4	1	
Imports	-	-	-	
Chemicals				
Exports	10	5	8	
Imports	7	7	6	
Intermediate and semi-manufactures				
Exports	6	6	16	
Imports	35	41	39	
Machinery and equipment				
Exports	19	18	24	
Imports	13	9	9	
Consumer and other finished manufactures				
Exports	3	6	4	
Imports	18	20	21	

a. Because of rounding, components may not add to the totals shown.
b. Based on eleven months' data for total US trade.

contract for an ammonia plant, to be built in Romania. Equipment for the plant will be supplied by West German and British firms, because financing terms available abroad prevented supply from the United States at competitive prices. The success of the Japanese in selling "hard goods" to Eastern Europe is due in large part to the unique needs of Romania and Bulgaria, together with the strong competitive position of Japan in the field shipping. Equally important, the Japanese have been as competitive as Western Europe in granting medium-term credit since the early 1960s.

15. Three countries have absorbed about 80% of US machinery exports -- Romania (about 40%), and Poland and Czechoslovakia (about 20% each). Practically all East European purchases have been of non-electrical machinery and equipment, including mining and construction equipment, machine tools, agricultural machinery, office machines, and a broad range of industrial-technical equipment. Unlike East European purchases from Western Europe, most equipment from the United States has not been in the form of complete plants.

US Imports

16. The dominance of Poland in US-East European trade is most apparent in US imports. When Polish statistics are included, total sales by Eastern European countries to the United States are very similar to their exports to the Developed West in general, with agricultural products and semi-manufactures each representing a little over one-fourth of the total, consumer goods about 14%, and machinery and equipment and chemicals trailing behind. Crude materials represent a much lower share, at about 6% as opposed to 12%-15% to all the Industrial West. It is noteworthy that four of the five East European countries which have not been granted MFN status -- Czechoslovakia, East Germany, Hungary, and Romania -- sell a much larger relative share of highly processed, and thus generally tariff-laden, products to the United States than does Poland. The composition of imports from the other five East European countries includes a large share of consumer goods (32%), machinery and equipment (21%), and intermediate manufactures (22%), which together make up 75% of total sales by these five countries on US markets.

Of the low tariff items (1930 rates), food accounts for only 11% and crude materials just 1%. This remarkably high percentage of processed goods is, in part, a function of US market demand, and also a function of the great distance to the US market; it is less advantageous to ship across the ocean the perishables which make up such a large part of East European exports to their continental neighbors in Western Europe.

17. Significant US imports by SITC categories in 1967-69 are food, crude materials, chemicals, intermediate manufactures, machinery and equipment, and consumer and other finished manufactures. Polish sales of food products, crude materials, and chemicals make up most of US imports in these categories. Nearly all (93%) of US imports of food products in recent years from Eastern Europe have come from Poland -- the major item being canned meat. Hides, skins, and furs account for most US imports of crude materials, and again Poland is the largest supplier, averaging about three-fourths of total East European exports. Although Poland is one of the world's largest sulphur producers, and the Poles have ambitious plans for earning hard currency through sulphur exports, it is unlikely that they will sell much to the United States for two reasons. First, Poland is focusing on the West European market where the gradual decline of the French as the leading sulphur supplier is providing an excellent opportunity for the expansion of Polish hard currency sales. Second, the United States is the world's leading producer of sulphur, followed closely by Canada and Mexico, and virtually all US sulphur needs are provided for by suppliers in these three countries. Polish sales in recent years make up over 70% of US imports of chemicals from Eastern Europe. Bulgaria sells its classic item, attar of roses, to the United States but nets only about $0.5 million annually. Major US imports of chemicals are in elements and compounds, pharmaceuticals, and glues and starches. As yet, no other East European country except Poland earns more than $1 million annually in chemicals sales to the United States.

18. Czechoslovakia and Poland together account for about 90% of US imports of intermediate and semi-manufactures from Eastern Europe. Poland markets a fairly wide range of steel products and textile items, and together Poland and Czechoslovakia annually sell glass products worth $5 million-$6 million.

19. Czech and East German sales of office machines, machine and power tools, and some transport equipment amounted to 75%-80% of total East European sales of machinery to the United States in 1967-69. In contrast to the trend in total East European machinery sales to the Industrial West, Czech sales to the United States have dropped from $9.6 million in 1967 to $5.3 million in 1969. Hungarian and Polish sales have also declined, although these have been at a much lower level, and thus more subject to fluctuations.

20. All of the Eastern European countries except Bulgaria sell substantial amounts of consumer goods in the United States. As in the case of intermediate manufactures, Czechoslovakia and Poland together dominate the trade, with 60%-70% of total sales annually. Czech sales of footwear, which amount to 20%-25% of the combined total, were valued at over $5 million in 1969. Furniture, clothing, and toys make up most of the remainder and are sold by all of the East European countries.

Factors Affecting Trade Expansion

Most-Favored-Nation (MFN) Treatment

21. The two East European countries most likely to be considered by the United States for possible MFN tariff treatment in the near future are Romania and Hungary. The granting of most-favored-nation tariff treatment to either or both of these countries would have little effect on US-East European trade in the short run, in part because of the time lag in sales of some of those items most likely to be increased: furniture, footwear, and other processed goods. MFN status would benefit US-Romanian trade in the longer run, but these benefits would probably be small.

22. The rise in Poland's sales of manufactures to the United States after receiving MFN status indicates that it has some effect, particularly as part of a general policy of trade and credit liberalization, as in the case of Poland and PL-480. However, the relatively large share of sales of manufactures to the United States by East Germany, Hungary, Romania, and Czechoslovakia -- without benefit of MFN -- compared with Polish exports of

manufactures under MFN suggests that commercial considerations may be more important than extending MFN status.

23. In any case, the full effect of MFN treatment is likely to be lagged by a few years. In the ten years (1961-70) after the United States granted MFN status for Polish exports, the value of those exports grew one and one-half times from $38 million to about $100 million. Romanian exports to the United States amounted to about $13 million in 1970, and allowing for possible sales expansion of the items most affected by tariff differentials, a value of exports of $30 million to $35 million is possible by 1975. If Romanian imports from the United States continue to grow, Romania cannot possibly expect to pay for them by exporting to the United States.

24. Thus, aside from political motivations, MFN status in itself is probably not a sufficient motivating factor in bringing about more than a token diversion from Western Europe of those export goods for which the tariff differential is significant. The European market still is the lifeblood of Eastern European trade with the West. Except for areas of rapid future growth of output, much of which is already committed over the medium term to sales expansion in established markets in Western and Eastern Europe, there is not enough flexibility in the East European economies to permit significant expansion of sales to the United States. The basic benefit of MFN status would seem to be as a token of US sincerity in efforts to normalize relations, with only limited short-run consequences for trade.

GATT Membership

25. Hungary and Romania have both applied for membership in the UN-sponsored General Agreement on Tariffs and Trade (GATT). A contractual obligation to expand annual imports from GATT members at a minimum growth rate, like that undertaken by Poland, in lieu of meaningful concessions, is of doubtful significance since East European countries can be expected over the long run to buy from the West at least as much as they sell in the West, but not a great deal more. So long as the United States has

not extended MFN status to the East European countries, any improvement in European markets resulting from GATT membership should tend to reduce their interest in selling in the United States.

Capacity Limitations

26. A more fundamental limitation on exports to the United States is that capacity limitations for commodities, chiefly semi-manufactures and consumer goods, that they could push on US markets already restrict trade with Western Europe. Eastern Europe could of course shift the emphasis from expanding sales in other markets in the Industrial West (mainly in Western Europe) to expanding sales in the United States. That seems the only significant source of potential sales in the next few years. For several reasons, that is not likely to happen. First, Eastern Europe has spent the last 15 years building up markets in developed Western Europe, and practically all of Eastern Europe's exports to the Industrial West go to these markets. Second, recent East European sales successes (in 1969 and 1970) in the Industrial West have been almost entirely in Western Europe, and Eastern Europe will continue to boost sales to expanding Western European markets which are granting credits and quota concessions annually, rather than reducing future sales commitments to risk selling in the United States. Third, joint ventures and cooperation agreements between Eastern and Western Europe have helped, in a small way, to promote East-West European commercial integration. Because of US trade and credit restrictions, and a general lack of interest on the part of US business, the United States has made virtually no attempt to exploit uncommitted East European resources. Finally, growing willingness in Western Europe -- and Japan -- to accept barter in dealing with Eastern Europe has help pave the way for trade expansion.

27. US firms have generally not been receptive to East European barter trade proposals unless the East European goods can be readily switch-traded within Europe. Disposing of East European goods in the United States, where such practices are not well established, can be cumbersome and time-consuming.

28. In summary, Eastern Europe can rely on Western Europe for most imports from the Industrial West of machinery and equipment and has developed close market relations with Western Europe which facilitate exports. These relations have developed a momentum which, in light of capacity limits in Eastern Europe, probably precludes any dramatic growth in trade with the United States in the near future.

Proximity Factor

29. The distance between the United States and Eastern Europe imposes significant costs on some kinds of trade. A considerable share of East European exports to industrial Western Europe (about 25% in 1969) consists of fresh fruit, vegetables, fresh meat, live animals, dairy products, and crude materials in the form of animal by-products. The speed with which Eastern Europe can deliver these commodities to West European importers is a critical factor in sales success. The increased cost of long-distance delivery tends to reduce returns from such deliveries to the United States. Even if shipment of such goods were feasible, quota restrictions and a lack of US demand would severely limit sales.

Inadequate Monetary Facilities and the Eurodollar Market

30. One of the most serious -- and widely recognized -- obstacles to expanded US-East European trade has been the lack of medium-term and long-term bank credit to finance possible US exports of machinery and equipment. In Western Europe, the needs of business brought about revolutionary changes in banking practices in the early 1960s. In order to compete with their neighbors for the East European market, business and financial interests, including US subsidiaries, in each West European country, with government support, mobilized hundreds of millions of dollars in medium-term and long-term credit to finance East European imports of machinery and other industrial products.

31. US business, facing political realities and absorbed in economic development in other parts of the world, has, in general, not needed and, therefore, not pressed for large-scale domestic credit

to finance sales to Eastern Europe. Also, some US firms have limited access to European credit facilities through subsidiaries. Since banks mold their services to the needs of business, the absence of liberal credit availabilities on the order of that in Western Europe is in part more a result -- rather than a cause -- of limited US trade with Eastern Europe.

32. US legislation limiting credit and requiring licenses for exports to Eastern Europe has no doubt worked to inhibit that trade. However, medium-term Export-Import Bank guarantees and insurance were to some degree available through most of the period of the East-West trade boom (up until 1968) and were competitive through the mid-1960s, and there were no legal barriers to sales of a wide range of machinery and equipment. Yet US business, aside from some sales by European subsidiaries, did not actively compete with Western Europe for the billion dollar market for machinery in Eastern Europe even in that period. Current US government interest in expanding US exports to Romania in particular, together with moderate soundings from US business, has brought about proposed legislation to liberalize Export-Import Bank regulations to include medium-term credit extensions to Eastern Europe (this facility has exempted Eastern Europe since passage of the Export-Import Bank Extension of 1968). If passed, this bill could possibly lead to some growth in sales of US machinery to Eastern Europe in the next few years.

33. US banks are involved to a limited degree in East European trade. Several large US banks have recently participated in consortium loans to East European countries. These banks advise the US businessmen in dealings with Eastern Europe, and, in the absence of US Export-Import Bank credits and with currently high US interest rates, they occasionally arrange medium-term financing in London or other European financial centers for US exporters.

34. East European importers can finance purchases of US goods through use of Eurodollar credit. In several instances, usually at the initiative of the East European importer, financing of imports of US capital equipment has come from West European sources.

The limit to this source of funds rests on the nature of each particular deal, money market conditions, and, most important, the overall credit rating of the East European importing country. It is likely that an expanded volume of US equipment sales could be financed by this method.

Country Prospects

Bulgaria

35. Bulgaria's major short-run concern is to stay out of hard currency financial difficulties, while maintaining some inflow of Western goods. In the past, these two objectives have not always been compatible, as in early 1969, when Bulgaria was forced to call on the USSR for help in meeting debt repayments in Western Europe. In 1969, and again in 1970, Bulgaria has held down imports from the Developed West, and it has not appreciably expanded exports to the West in those years. Bulgaria has fallen further behind the other East European countries, all of which have experienced strong export successes in Western Europe in the last two years.

36. Bulgarian imports from the United States in 1967-69 increased at an average annual rate of 5%. In 1970, US exports to Bulgaria increased by more than one and one-half times, in part as a result of an increase of several million dollars in deliveries of agricultural products. An extension of the 1967-70 growth rate could lead to US exports of a value of $17 million in 1971. Bulgarian demand for US agricultural products will remain strong in the first half of 1971, but with its exports expected to remain at a level of only $2 million to $3 million in 1971, Bulgaria may hold down total imports to about the 1970 level.

Romania

37. Romanian imports from the United States have increased from $17 million in 1967 to about $65 million in 1970, a rate of growth of about 56% per year. About 50% of 1970 imports were of agricultural commodities, mainly grains, a direct consequence of crop losses resulting from the 1970 spring floods. The granting of MFN trade status to Romania

in 1971 would have little immediate effect on the volume of US imports from Romania, not only because of the time lag between possible Congressional approval and eventual Romanian deliveries which might be linked to MFN, but also because of the uncertainty of the extent of any diversion from existing trade patterns. MFN status could result in increased exports by Romania over a longer period.

38. Romanian demand for US agricultural products is expected to remain strong in the first half of 1971, and the level of imports of US machinery and equipment could rise dramatically if Romania is willing to continue running a large deficit with the United States ($120 million in 1966-70) and if favorable long-term financing is arranged for future deliveries of machinery and equipment. Extrapolation of the 1967-70 growth rates for 1971 yields projected US exports to Romania of just over $100 million and US imports of only $17 million. A more realistic US sales projection might be in the $60 million to $80 million range, as Romanian purchases of agricultural goods slack off in the latter half of 1971.

Czechoslovakia

39. Czech exports to the United States are second in value to those of Poland, averaging $24 million in 1967-70. As shown in Table 2, they are more diversified than those of any other East European country. Almost 90% of Czech exports to the United States in 1969 were manufactures, including machinery. Of Czech exports to the entire Industrial West in 1969, only 50% fell under these categories. In the absence of a major initiative, Czech exports to the United States are not expected to increase significantly in 1971. Even Czech finished goods -- much better than the average for Eastern Europe -- are only in a few cases competitive on the US market.

40. Czechoslovakia ran a substantial surplus with the United States in 1967-69, but increased imports of agricultural goods in 1970 and the stagnation of exports have brought trade more or less in balance. Czech imports in 1971 are expected to increase only slightly over those of 1970.

Table 2

US Trade with Eastern Europe in 1969 a/

	Bulgaria		Czechoslovakia		East Germany		Hungary		Poland		Romania	
	Million US $	Percent	Million US $	Percent	Million US $	Percent	Million US $	Percent	Million US $	Percent	Million US $	Percent
Total trade b/												
Exports	4.6	100	14.2	100	32.4	100	7.1	100	52.6	100	32.3	100
Imports	1.6	100	24.1	100	8.0	100	4.1	100	97.8	100	8.0	100
Of which:												
Food, beverages, tobacco												
Exports	2.3	50	0.5	4	23.5	73	3.6	51	21.1	40	1.1	3
Imports	0.7	44	1.9	8	- c/	-	0.7	17	51.7	53	0.8	10
Crude materials												
Exports	-	-	5.3	37	5.2	16	0.3	4	16.3	31	5.0	15
Imports	0.1	6	0.6	2	1.1	14	0.1	2	5.8	6	0.3	4
Mineral fuels, lubricants												
Exports	-	-	0.5	4	1.1	3	-	-	-	-	4.1	13
Imports	-	-	-	-	0.4	5	-	-	0.1	Negl.	2.7	34
Animal and vegetable oils and fats												
Exports	-	-	-	-	-	-	-	-	1.4	3	-	-
Imports	-	-	-	-	-	-	-	-	-	-	-	-
Chemicals												
Exports	0.6	13	0.8	6	0.2	1	0.9	13	3.9	7	1.1	3
Imports	0.3	19	0.6	2	0.9	11	0.2	5	3.9	4	0.2	3
Intermediate and semi-manufactures												
Exports	-	-	1.4	10	0.3	1	0.7	10	2.7	5	10.6	33
Imports	0.2	13	6.5	27	1.6	20	1.1	27	29.1	30	0.8	10
Machinery and equipment												
Exports	1.5	33	4.9	34	1.8	6	1.0	14	4.9	9	9.8	30
Imports	0.1	6	5.3	22	2.3	29	0.5	12	1.1	1	-	-
Consumer and other finished manufactures												
Exports	0.1	2	0.8	6	0.3	1	0.6	8	1.3	3	0.6	2
Imports	0.1	6	8.9	37	1.6	20	1.4	34	5.8	6	3.0	38

a. OECD statistics.
b. Because of rounding, components may not add to the totals shown.
c. A dash indicates negligible amount.

Hungary

41. In experimenting with economic reform, Hungary has emerged as the leading East European proponent of cooperation and production integration with Western industry. Hungary appears to have substantial long-run potential for expanding markets in the Industrial West for intermediate and semi-manufactures. Hungarian cooperation agreements with Western firms far outnumber those of any other East European country.

42. Hungary is hopeful of receiving MFN tariff status from the United States. Within Eastern Europe, it is possible that in the long run Hungary could benefit the most from the United States' granting of MFN status through domestic development of the most diversified mix of potentially competitive manufactures. In fact, long-run trade plans for Hungary call for a somewhat larger role to be played by the United States as a market for Hungary's finished products. However, Hungary is generally committed to expanding trade in manufactures with Western Europe through the mid-1970s. With Hungary determined to hold trade with the West to about a one-third share of total trade, that leaves few uncommitted resources.

43. Hungarian imports from the United States increased three-fold in 1970 over 1969, from $7 million to about $29 million, mainly as a result of increased purchases of feed grains and other agricultural commodities, which increased by $10 million to $15 million over the 1969 level of $3.6 million. It is possible that Hungary may make use of recently granted CCC credits to finance eligible agricultural imports. US imports from Hungary increased from $4 million in 1969 to only $6 million in 1970 and will probably not exceed $10 million in 1971. Further increases in imports from the United States are possible in 1971, as Hungary presses for industrial cooperation with US firms.

Poland

44. Poland's position as the leading East European trading partner of the United States is eroding somewhat. US sales to Poland in 1970 were

only slightly larger than those going to Romania, and Poland may end the year second to Romania in "buying US", with projected imports of $70 million to $75 million. On the other hand, Poland's position as the leading East European exporter to the United States is in no danger of being usurped for many years. Exports to the United States in 1970 ran about $95 million, and 1971 sales should be about the same or perhaps slightly lower, if the new Polish regime can maintain canned meat exports in the face of pressures to increase the domestic meat supply. The mainstay of Polish sales is canned hams, which made up about 55% of total sales in 1969. Polish exports of steel to the United States in 1969 were valued at $11 million and were quite diversified, ranging from bars and rods to welded tubes and pipes.

East Germany

45. East German trade with the United States has grown steadily since the mid-1960s with US imports in 1970 -- about $10 million -- almost doubling the 1967 level. Sales to East Germany consist mostly of grain and crude materials -- including coal. With severe shortages of certain primary products, partly the result of recent adverse weather conditions, East German requirements in 1971 should be substantial. Although East Germany is generally cutting imports from the West, US exports to East Germany in 1971 could reach $35 million to $40 million, most of which will be agricultural commodities and crude materials. US imports will probably increase from $10 million in 1970 to perhaps $12 million next year, with a possible further boost in East German sales of chemicals and machinery and equipment.

Conclusions

46. US-East European trade is not expected to grow dramatically in the near future, and a specific percentage estimate is difficult to project because of the small volume of turnover. Because of this, one or two significant transactions can produce very large increases in US trade with any one country. There is little reason to suppose that such increases are likely to be sustained over a longer period of time.

47. US exports to Romania have accounted for about three-fifths of the growth in US-East European trade since 1967. Prospects for future US sales to Romania are uncertain, however. Substantial hard currency debt repayments plus a large cumulative trade deficit with the United States are likely to limit future Romanian industrial purchases.

48. US exports of agricultural goods and non-agricultural crude materials will probably increase as a share of total exports in 1971 because of East European needs for grain, oilseed products, and certain primary products. Except for some possible increase in sales of machinery to Romania, US non-agricultural exports to Eastern Europe are not expected to increase significantly. If the proposed legislation to extend Export-Import Bank facilities to East Europe is passed, it could have a demonstrable effect on US sales of machinery to Eastern Europe beginning in 1972.

49. US imports from Eastern Europe in 1971 probably will not increase by more than 10%-15% over the 1970 level. If most-favored-nation (MFN) status is granted to Romania, most of the benefits, as reflected in increased US imports, will probably be lagged beyond 1971. Export commitments to Communist countries and to other Western countries leave little slack in the short run in the tightly strung East European economies for expanding sales to the United States.

50. MFN status as a long-run factor will be limited because of overriding commercial considerations not conducive to expansion of East European exports to the United States. It is unlikely that Eastern Europe will divert sales from Western Europe to the United States. A considerable part of East European exports to Western Europe would not be sold in the United States, because of the distance to the US market, quota restrictions, and differences in West European and US tastes and preferences.

51. Limited US bank credit facilities are perhaps a result more than a cause of the low level of US exports to Eastern Europe. Because of political obstacles and opportunities in other areas, with the resultant low level of interest of

US business in Eastern Europe, the modest level of US exports of industrial goods to Eastern Europe has not warranted the kind of credit assistance that has occurred in Western Europe. As an already available alternative, the Eurodollar market has the capacity to serve as a source of funds, perhaps at lower interest rates, to finance a considerable expansion of US machinery and equipment exports to Eastern Europe.

52. Sales of agricultural products and crude materials to East Germany, Poland, and Romania, in particular, will be the mainstay of US exports to Eastern Europe in 1971. On the basis of current Romanian business initiatives, US sales of machinery and equipment to Romania could increase considerably, if Romania is willing and able to widen its already large cumulative trade deficit with the United States. In part because a large share of East European sales in the United states are manufactures, which are difficult for Eastern Europe to expand, and because much of the rest consists of Polish meat, which is in short supply at home, the East European countries are not expected to make dramatic gains in exports to the United States in 1971.